



# Outlook

Membership Newsletter • January 2021

## 2021 Legislative Session Began January 12

At its December 2020 meeting, the South Dakota Retirement System (SDRS) Board of Trustees finalized its legislative proposals. The Retirement Laws Committee has sponsored the proposals on behalf of SDRS for consideration during the 2021 Legislative Session.

### House Bill 1030: Required Minimum Distributions

In general, required minimum distributions (RMDs) are minimum benefit amounts a member or participant must withdraw annually once they separate from service and reach a certain age. While SDRS has always referenced the Internal Revenue Code (IRC) pertaining to RMDs, this bill would add the required IRC provisions within statute.

### House Bill 1031: Provision “Clean Up”

This bill revises certain provisions related to internal SDRS administrative processes:

- Removes notarization requirements for several SDRS processes and adds a requirement for a copy of the member’s driver license or other photo identification. For consistency, the photo identification requirement would be expanded to include additional SDRS processes, such as enrollments;
- Revises language and process for crediting contributions on pay not used in the calculation of final average compensation due to compensation caps;
- Removes old cross references.

### House Bill 1032: Cost of Living Adjustment

The variable cost of living adjustment (COLA) is an important SDRS benefit feature that increases benefits after retirement to offset the effects of inflation. The Board’s goal of matching inflation has been met or exceeded for most SDRS retirees.

During contingency planning efforts in 2020, the Board considered benefit changes that might be necessary during severe economic conditions to meet statutory funding requirements. By law, the Board must make corrective action recommendations if those requirements are not met. The Board concluded lowering the minimum cost of living adjustment (COLA) from one-half to zero percent would avoid paying a COLA when economic conditions force consideration of other benefit reductions to meet statutory funding requirements.

The lowering of the minimum COLA to zero percent would:

- Not affect the COLA payable July 1, 2021;
- Never decrease the member’s earned benefit, including past COLAs;
- Avoid paying any COLA when it is not affordable;
- Avoid paying a COLA more than inflation when inflation is very low;
- Delay or prevent more disruptive and substantive reductions to SDRS benefits to meet statutory requirements.

### House Bill 1033: Reemployment After Retirement

It is important to note that the changes provided within HB 1033 are necessary to keep SDRS in compliance with the Internal Revenue Service (IRS) requirements while still offering flexibility for SDRS members and employers.

A bona fide retirement or separation from service with an employer means the employee is no longer working for the employer in any capacity (full-time, part-time, temporary, seasonal, contractual, leased, or other

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designation). Allowing a member to receive a benefit before a bona fide separation can not only jeopardize SDRS' tax qualified status, but it can also result in an early distribution penalty to the member.

To be qualified for an SDRS retirement benefit, a member must have at least three consecutive months of separation before returning to work for an SDRS participating employer. This legislation clarifies that a break in service cannot include any kind of employment with an SDRS participating employer.

The bill further provides additional flexibility for retired members rehired by an SDRS participating employer to work less than 1,250 hours in a fiscal year. If a retiree is rehired to work less than 1,250 hours, these exemptions to the return to work provisions apply:

- If the member had a three-month separation, there will be no SDRS benefit reduction, COLA suspension, or contribution requirements.
- If the member was at least age 59 1/2 at retirement, the member will be exempt from the required three-month separation, SDRS benefits are not reduced, and contributions are not required.

Employers must report hours worked for retirees working less than 1,250 hours to SDRS. If the member works more than 1,250 hours in the fiscal year, SDRS benefits will be

reduced and the COLA is suspended during the reemployment period.

HB 1033 also offers flexibility for members who retire with a reduced benefit. Currently, retirees receiving a reduced benefit have their benefits suspended during the reemployment period. Under the proposal, the member would receive his or her SDRS benefit with a 15 percent reduction and COLA suspension during reemployment—the same as for members who retire with an unreduced benefit.

This bill has an emergency clause and if passed would go into effect on April 1, 2021.

Additional information regarding SDRS legislation is available online at [sdrs.sd.gov](https://sdrs.sd.gov) and [sdlegislature.gov](https://sdlegislature.gov).

### **COLA Effective July 1, 2021: 1.28%**

The SDRS COLA is equal to inflation between 0.5 and 3.5% when that range is affordable. When not affordable, a restricted maximum COLA applies. The June 30, 2020 actuarial valuation determined a restricted maximum COLA of 1.41%. The increase in the consumer price index (inflation) was 1.28%. Therefore, the COLA effective July 1, 2021, will be 1.28%.

*The information presented in Outlook is neither a legal reference nor a complete statement of South Dakota laws or administrative rules. In any conflict between this information and South Dakota laws or administrative rules, the laws and administrative rules shall prevail.*

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